

MONEY TRANSACTION STATEMENT IN THE NEW ACCOUNTING SYSTEM

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Money is a decisive factor in the existence of business. Investors, creditors, managers all pay attention to financial position of business and economic events or operations influencing on this position. Investors and managers want to know whether a business has got money enough to grasp unexpected opportunities or to take a preponderant position in new opportunities or not. Creditors and shareholders, on the other hand, show interest in ability of business to pay debts. In short, everybody needs information about financial position of business before they make decision. In order to satisfy this need, the business should make a financial statement that shows the cash flow or gives an account of profit and loss of the business during a specified period. The document that gives such information is the money transaction statement.

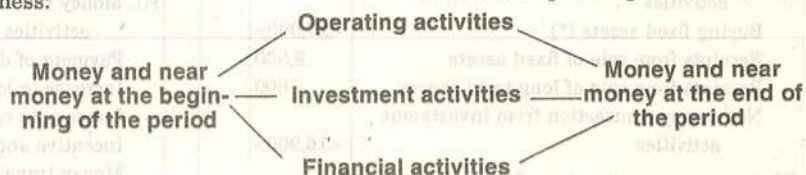
I. NATURE AND MEANING OF THE MONEY TRANSACTION STATEMENT

The money transaction statement (MTS) is one of statements stipulated in the system of periodical statements of the new accounting system. This statement is new to the Vietnam accounting system but in America, it's one of three main statements which all businesses should make at the end of the accounting period. The MTS gives information about economic events and operations influencing on financial position of a business, or to be more precise, on ways of earning cash and spending it of a business:

- Borrowing and paying debts
- Buying and reselling shares.
- Paying dividend and distributing profit to owners.
- Factors influencing on the ability of a business to earn cash and to pay debts.

II. CONTENTS OF THE MTS

The following chart will show ways of transacting money in a business:



Thus, we see that money and near money at the beginning of the period will be transacted through many activities of a business, the transaction of money will be recorded in non-cash books and at the end of the period, accountant will present all sums received and paid in cash books. Difference between opening and closing balance will be the result of the

money transaction in a business.

1. What are money and near money?

Money of a business is capital held in the form of cash in hand, cash at bank, cash in transit. Good managers usually hold an appropriate sum of money for the business. Some businesses could receive large amounts of cash (from sales for example) in certain months of a year. Instead of putting these amount of cash on deposit with banks for a moderate rate of interest, the manager could invest them in buying marketable securities with a view to making a larger profit. If these investments can be quickly liquidated and if they aim at making the best use of cash of a business in order to meet requirements of present activities, then these investments are called short-term investment. These investments could also be considered as near money if they have two following qualities:

- They can be easily sold for a predictable sum of money.
- They are so near to maturity that their value is free from influence of changes in interest rate.

2. Bases for making the MTS

In an accounting period, cash flows incessantly. Economic operations occur continuously, cash is paid or received. Besides, there are a lot of non-cash transactions. But all transactions are inspected and recorded on account books by accountant.

Bases for making the MTS are operating result statement, balance sheet at the end of the period (including numerical data of the previous period), specialized journals recording all of cash payments and receipts, and fixed assets account book.

3. Method of making the MTS

Money will go through three activities of a business: operating activities, investment activities and financial activities. Thus, the MTS will include three parts: Money transaction from operating activities, from

investment and from financial activities. Operating activities include economic operations relating to assessment of profits earned by business. Investment activities include economic operations relating to trade in out-period assets which are considered as long-term investments with a view to earning profit (buying land, shares of other businesses or new

fixed assets for example). Financial activities include economic operations relating to business's owner or business's capital (distribution of profit, issuing shares for cash, borrowing money for example).

Thus, the MTS shows how much money each activity has earned and how money has been spent, at the same time, it also shows how the flow of money is regulated among three activities of business, what activity is the biggest profit-maker what is the biggest money-spender, and whether these expenditures are reasonable and profitable or not.

There are two method of making the MTS: indirect and direct methods. The difference between them is in calculating money transaction from operating activities.

In the indirect method, net profit (having code number 16 on the operating result statement as regulated by the new accounting system) is used as starting point for changing non-cash transactions to cash transaction in order to work out the sum of money transacted in operating activities. But in the direct method, the starting point is receipts from sales (code 01). Those two starting points are on opposite ends, so the ways of changing non-cash to cash transaction are also in opposite directions. In the indirect method, results after changing will be added to the net profit, whereas in the direct method, results after changing will be taken away from the net profit. However, those two methods will end in the same result: the supplied or employed sum of money of operating activities. As for investment and financial activities, there is no difference between those two methods.

III. PRINCIPLES OF ASSESSMENT OF TRANSACTED MONEY IN THE OPERATING ACTIVITIES

In two methods of making the MTS, although they use different starting points but both of them reflect the same operating result: sales reflected the gross profit, net profit was the operating profit after deducting any tax and expenses payable. Therefore, cash receipts in any accounts will be changed in the same way in both two methods, but all cash payments will be changed in opposite ways in those two methods. This will be illustrated in the following.

1. The direct method

- Principles:

a. Start at value of sales (code 01) in the operating result statement.

b. Accounts recording receipts are changed in the following way:

+ Accounts of Reserve returned:

deducting the reserve returned at the end of the period.

+ Assets accounts: deducting if there is an increase and adding if there is a decrease.

+ Capital accounts: adding the increase, deducting the decrease.

c. Accounts recording payments are changed in the following way:

+ Assets accounts: adding the increase, deducting the decrease.

+ Capital accounts: deducting the increase, adding the decrease.

+ Wear and tear: deducting the depreciation during the period.

+ Reserve accounts: deducting all reserves for next accounting period.

d. Basing on changed results, the cost of goods sold and operating expenses could be worked out, from this we can assess the sum of money employed or supplied by the operating activities in the process of forming the operating result statement.

2. The indirect method

- Principles:

a. Start from the net profit from the operating activities (code 16) in the operating result statement.

b. Accounts recording receipts will be changed as they were done when the MTS was made according to the direct method.

c. Accounts recording payments will be changed in a way opposite to the way used for making the MTS by the direct method. The following are some explanatory notes:

+ As for assets accounts: adding the decrease, deducting the increase.

+ As for capital accounts: adding the increase, deducting the decrease.

+ Wear and tear: adding the depreciation during the period.

+ As for reserve accounts: adding all reserves for next accounting period.

d. Basing on changed results and net profit, the sum of money employed or supplied by the operating activities could be found out.

IV. Principles of assessment of transacted money in the investment and the financial activities

1. Assessment of transacted money from the investment activities

Principles: assess all receipts (sale of equipment, shares, or debts receivable...) and all payments (buying equipment share, depositing money with banks...), and then assess net money transaction from the investment activities. Documents used as bases for calculation are opening balance and closing balance of related accounts, along with assets books.

2. Assessment of transacted money from the financial activities

Principles: assess all receipts



(borrowing capital, issuing shares...) and all payments (distributing incentives to workers, buying shares, paying dividend...), and then assess net money transaction from the financial activities. Used documents are opening balance and closing balance of related accounts, and account book of loans■